

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 12953
ORDER NO. R-11896**

**APPLICATION OF PERMIAN RESOURCES, INC. FOR COMPULSORY
POOLING, UNORTHODOX WELL LOCATION, DESIGNATION OF A
SPECIAL PROJECT AREA, AND SIMULTANEOUS DEDICATION, LEA
COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 24, 2002 before Examiner David K. Brooks.

NOW, on this 10th day of February, 2003, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Applicant seeks an order pooling all uncommitted mineral interests in the Strawn formation only, underlying the S/2 SE/4 of Section 7, Township 16 South, Range 36 East, NMPM, Lea County, New Mexico, forming a standard 80-acre oil spacing and proration unit (the "80-Acre Unit" or "Unit") as to the Northeast Shoe Bar-Strawn Pool.

(3) In addition, Applicant seeks approval of an unorthodox location, establishment of a special project area for a proposed horizontal completion, and approval for simultaneous dedication as set forth below.

(4) Applicant proposes to dedicate the 80-Acre Unit to its proposed Chambers Well No. 2 ("the proposed well") to be drilled in the S/2 SE/4 of Section 7, at an unorthodox surface location 1,038 feet from the South line and 802 feet from the East line (Unit P) of Section 7. The proposed well will be drilled vertically to a depth of approximately 10,200 feet, then kicked off in a westerly direction to an unorthodox Strawn bottom-hole location approximately 950 feet from the South line and 1,500 feet from the East line (Unit O) of Section 7.

(5) Applicant expects to encounter the Strawn formation in the proposed well at a subsurface location approximately 1,000 feet from the South line and 1,025 feet from the East line of Section 7, and then drill approximately 500 feet horizontally into the Strawn. The proposed lateral will lie entirely outside the producing area for the proposed Unit in the Northeast Shoe Bar-Strawn Pool.

(6) In support of its application for approval of an unorthodox location of the proposed well in the Northeast Shoe Bar-Strawn Pool, Applicant presented geologic testimony that:

(a) Applicant's objective in the Strawn is to locate and tap into algal mounds;

(b) these algal mounds are typically of small extent but tend to be very prolific producers;

(c) 3-D seismic and other geologic evidence indicate the existence of such an algal mound in the Strawn under the North part of the S/2 SE/4 of Section 7; and

(d) a well drilled to the Strawn in the N/2 SE/4 of Section 7, or at a standard location in the S/2 SE/4 of Section 7, would most likely not encounter the targeted algal mound.

(7) Applicant presented land testimony to the effect that Applicant is the operator of, and owns the entire working interest in, the N/2 SE/4 of Section 7, the only Strawn spacing unit toward which the unorthodox location of the proposed well would encroach.

(8) The unorthodox location of the proposed well in the Strawn, involving a producing interval from a projected penetration location approximately 1,000 feet from the South line and 1,025 feet from the East line to a projected bottom-hole location 950 feet from the South line and 1,500 feet from the East line of Section 7, should be approved, and a special project area should be created in the Strawn formation to consist of the S/2 SE/4 of Section 7.

(9) In addition or as an alternative to completion in the Strawn, Applicant proposes to complete the proposed well in the Wolfcamp at a location stated to be 950 feet from the South line and 1,500 feet from the East line of Section 7, a location that would be unorthodox in the North Shoe Bar-Wolfcamp Pool. Applicant proposes to simultaneously dedicate the 160-Acre Wolfcamp Unit ("the 160-Acre Unit") originally

established by Order No. R-11682, issued in Case No. 12715, and restored by Order No. R-11682-A issued in Case No. 12954, to its Chambers Well No. 1 (**API No. 30-025-24617**) and to the proposed well.

(10) Applicant presented evidence to the effect that all the owners of interests in the 80-Acre Unit and the 160-Acre Unit are the same persons, although their ownership percentages in the respective units differ

(11) Although the application seeks approval of an unorthodox location in the Wolfcamp 950 feet from the South line and 1,500 feet from the East line, the testimony concerning the plan of drilling indicates that the probable location at which the proposed well will encounter the Wolfcamp will more closely approximate 1,000 feet from the East line of the Section, rather than 1,500 feet.

(12) The probable down-hole location of the proposed well in the Wolfcamp is unorthodox for the North Shoe Bar-Wolfcamp Pool. However, it deviates from the standard location toward the interior of the spacing unit and does not encroach toward any adjacent spacing unit.

(13) The North Shoe Bar-Wolfcamp Pool is a prorated pool with a depth bracket allowable of 560 barrels. There is no restriction on the number of wells that may be drilled on a proration unit, and the operator may produce the unit allowable from wells on the unit in any proportion.

(14) In the event that the proposed well proves productive in the Wolfcamp, approval of the proposed unorthodox Wolfcamp location of the proposed well, which is driven by the anticipated geology of the Strawn, will prevent waste by obviating the necessity of drilling an additional well to the Wolfcamp, and will not infringe upon correlative rights.

(15) The unorthodox down-hole location of the proposed well in the Wolfcamp should be approved. Because the number of wells in a spacing unit in the North Shoe Bar-Wolfcamp Pool is not restricted, no approval is required for the simultaneous dedication of the 160-Acre Unit to the Chambers Well No. 1 and to the proposed well.

(16) Two or more separately owned tracts are embraced within the 80-Acre Unit, and/or there are owners of royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the 80-Acre Unit that are separately owned.

(17) Applicant is an owner of an oil and gas working interest within the 80-Acre Unit. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the 80-Acre Unit.

(18) There are interest owners in the 80-Acre Unit that have not agreed to pool their interests.

(19) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the 80-Acre Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted mineral interests, whatever they may be, within the 80-Acre Unit.

(20) Applicant should be designated the operator of the proposed well and the 80-Acre Unit.

(21) The Unit should be dedicated to the proposed well.

(22) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. ("Uncommitted working interest owners" are owners of working interests in the property to be pooled, including unleased mineral interests, who are not parties to an operating agreement governing that property.) Any non-consenting working interest owner should be afforded the opportunity to pay its share of estimated well costs of the proposed well to the operator in lieu of paying its share of reasonable well costs out of production.

(23) Any non-consenting working interest owner should be afforded the opportunity to object to the actual well costs, but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(24) Following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated costs should pay to the operator its share of the amount, if any, that reasonable well costs exceed estimated well costs and should receive from the operator the amount, if any, that estimated well costs paid by it exceed its share of reasonable well costs.

(25) Any non-consenting working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(26) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$650 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator should be authorized to

withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Permian Resources, Inc., all uncommitted mineral interests in the Strawn formation underlying the S/2 SE/4 of Section 7, Township 16 South, Range 36 East, N.M.P.M., Lea County, New Mexico, are hereby pooled, forming a standard 80-acre oil spacing and proration unit as to the Northeast Shoe Bar-Strawn Pool.

The 80-Acre Unit shall be dedicated to Applicant's proposed Chambers Well No. 2 to be drilled at an unorthodox well location [surface location 802 feet from the South line and 1,038 from the East line, and bottom hole location approximately 950 from the South line and 1,500 from the East line] within the S/2 SE/4 of Section 7.

(2) The unorthodox location of the proposed well in the Northeast Shoe Bar-Strawn Pool is approved. A special project area, to consist of the S/2 SE/4 of Section 7, Township 16 South, Range 36 East, NMPM, is hereby created in the Northeast Shoe Bar-Strawn Pool for the horizontal completion of the proposed well.

(3) The unorthodox location of the proposed well in the North Shoe Bar-Wolfcamp Pool, approximately 800 feet from the South line and 1,000 feet from the East line of Section 7, is approved.

(4) The operator of the 80-Acre Unit shall commence drilling the proposed well on or before April 30, 2003, and shall thereafter continue drilling the well with due diligence to test the Strawn formation.

(5) In the event the operator does not commence drilling the proposed well on or before April 30, 2002, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(6) Should the proposed well not be drilled to completion, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(7) Applicant is hereby designated the operator of the proposed well and of the 80-Acre Unit.

(8) After pooling, uncommitted working interest owners are referred to as non-consenting working interest owners. After the effective date of this order, the operator shall furnish the Division and each known non-consenting working interest owner in the Unit an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any non-consenting working interest owner shall have the right to pay its share of estimated well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(10) The operator shall furnish the Division and each known non-consenting working interest owner an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(11) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid its share of estimated well costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator its share of the amount that estimated well costs exceed reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

- (a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner who has not paid its share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(13) In the event that a determination is made to complete the proposed well in the Wolfcamp formation, the operator should apply for an amendment of Order No. R-11682-A to provide for allocation of costs within the 160-Acre Unit.

(14) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$650 per month while producing, provided that these rates shall be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(16) Except as provided in Ordering Paragraphs (13) and (16) above, all proceeds from production from the proposed well that are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

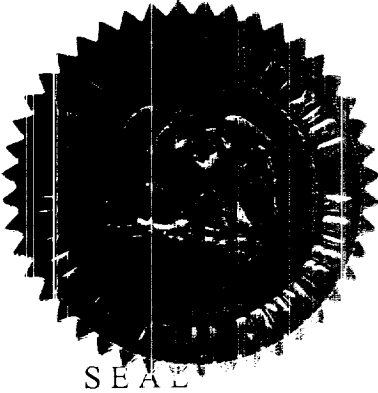
(17) Any unleased mineral interest shall be considered a seven-eighths ($7/8$) working interest and a one-eighth ($1/8$) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the forced pooling provisions of this order shall thereafter be of no further effect.

(19) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(20) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

Lori Wrotenbery
LORI WROTENBERY
Director